



DEPARTMENT OF
Management & Budget

Office of Retirement Services

Serving more than 580,000
customers



March 20, 2007

Vision Statement



Empowering people for
a successful today and a
secure tomorrow.

Highlights

- Office of Retirement Services
 - Services customers representing approximately 1 out of every 18 Michigan residents
 - Paid \$4.6 billion in pension and health benefits in 2006
 - The market value of the defined benefit's assets totals more than \$58 billion*
 - In 2006 the Defined Contribution/Deferred Compensation assets totaled more an \$4.5 billion

*Data as of Feb. 28, 2007

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Customers

The Retirement System serves over a ½ million customers

- | | |
|---|--|
| <ul style="list-style-type: none">• Public Schools<ul style="list-style-type: none">– Retirees and Beneficiaries 157,000– Current Employees 305,000• State Employees<ul style="list-style-type: none">– Defined Benefit<ul style="list-style-type: none">• Retirees and Beneficiaries 46,000• Current Employees 32,600– Defined Contribution<ul style="list-style-type: none">• Retirees and Beneficiaries 6,045• Current Employees 23,342 | <ul style="list-style-type: none">• State Police<ul style="list-style-type: none">– Retirees and Beneficiaries 2,711– Current Employees 1,678– Deferred Retirement Option Plan 129• Michigan Judges<ul style="list-style-type: none">– Defined Benefit<ul style="list-style-type: none">• Retirees and Beneficiaries 533• Current Employees 291– Defined Contribution<ul style="list-style-type: none">• Retirees and Beneficiaries 38• Current Employees 312• Legislators<ul style="list-style-type: none">– Defined Contribution<ul style="list-style-type: none">• Retirees 39• Beneficiaries 138 |
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Overview of Retirement Plans

- Funded throughout an employee's career
- Pension plans accrue assets to provide pension benefits to their retirees
- Generally speaking, there are two types of pension plans:
 - Defined Benefit Plans
 - Defined Contribution Plans

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Overview of Retirement Plans

- The Office of Retirement Services Retirement Plans:
 - Michigan Public School Employees Defined Benefit Plan
 - Michigan State Employees Defined Benefit Plan
 - Michigan State Employees Defined Contribution Plan
 - Michigan State Police Defined Benefit Plan
 - Michigan Judges Defined Benefit Plan
 - Michigan Judges Defined Contribution Plan

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Overview of Retirement Plans

- The Retirement System also offers retirees optional post-retirement health, dental, vision, long-term care, and life insurance.

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Overview of Retirement Plans

- Defined Benefit Plans
 - A defined benefit plan provides a specified pension benefit for the retiree's life. The amount is generally calculated through a plan formula based on age, service and compensation. The defined benefit pension amount typically increases proportionately based on the years of service with the employer offering the plan.

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Overview of Retirement Plans

- Defined Contribution Plans
 - In a defined contribution plan, individual accounts for each plan participant are established to accumulate assets for retirement. The individual may make voluntary contributions to the individual account. The employer generally makes contributions to the individuals account.
 - The net retirement benefit is the amount in the account at the time of retirement.

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Public Schools – Customers

- The membership comes from:
 - Public school districts
 - Public school academies
 - All community colleges
 - Seven universities: Central, Eastern, Western, and Northern Michigan Universities, Ferris State, Lake Superior State and Michigan Technological Universities*

*Closed to new members on or after January 1, 1996

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State Employees – Customers

- The membership comes from:
 - All Civil Service employees
 - Appointed officials in the executive branch
 - Employees of the legislature and judiciary

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State Police – Customers

- The membership comes from:
 - All sworn, enlisted officers

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Michigan Judges – Customers

- The membership comes from:
 - All judges in the judicial branch of state government
 - The Governor
 - Lieutenant Governor
 - Secretary of State
 - Attorney General
 - Legislative Auditor General
 - Constitutional Court Administrator

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Public Schools Retirement Plan

MEMBER INVESTMENT PLAN (MIP)

- Employees working on January 1, 1987, or hired between January 1, 1987 and January 1, 1990 had a choice between the Basic or MIP plan. All employees hired after January 1, 1990 entered MIP
- MIP members make contributions to the retirement system (3-4.3%)
- Takes 10 years to be vested in the system.
- Any age with 30 years of service to retire. Age 60 with 10 years of service or with 5 years as long as .1 of service occurred in each of the 5 preceding years
- Reduced benefits at age 55 with more than 15 but less than 30 years of service

BASIC PLAN

- Employees hired before January 1, 1990, who remained in the Basic Plan (less than 18% of employees)
- Basic members do not make contributions to the retirement system
- Takes 10 years to be vested in the system
- At age 55 retire with 30 years of service. Age 60 with 10 years.
- Reduced benefits at age 55 with more than 15 but less than 30 years of service)

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Public Schools Retirement Plan

- Post - Retirement Increases
 - MIP members receive a 3% non-compounded annual increase (no maximum)
 - Persons retired 1/1/87 or earlier are provided MIP post-retirement increases and receive a 3% non-compounded annual increase and may receive a payment based on investment earnings
 - Basic plan retirees after 1/1/87 may receive a payment based on investment earnings

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Public Schools Retirement Plan

- Retirees and their eligible dependents may choose to have:
 - Medical, Prescription Drug and Hearing Coverage
 - Dental/Vision Insurance
 - Long-Term Care Insurance
- Health care is self-funded on a “pay-as-you-go” basis

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State Employees Retirement Plans

DEFINED BENEFIT

- Most employees* hired before March 31, 1997
- Employees do not make contributions to the retirement system
- Takes 10 years to be vested in the system
- Must be age 55 with 30 years of service to retire, age 60 with 10 years of service, or with reduced benefits at age 55 with more than 15 but less than 30 years of service

*some employees of the legislature, certain correctional facilities, community health facilities and conservation officers have different retirement requirements

DEFINED CONTRIBUTION

- Any employee hired on or after March 31, 1997 or who transferred from the Defined Benefit Plan
- State contribution is 4% of the employee's annual salary. State will match up to the first 3% of any employee contributions
- Takes 2 years to be 50% vested in the system, 3 years to be 75% vested, or 4 years to be 100% vested
- Upon termination a former employee has access to their vested contributions and investment return

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State Employees Retirement Plans

- Post – Retirement Increases (DB only)
 - Members retired on or after 10/1/87 receive a 3% non-compounded annual increase, \$300 maximum
 - Members retired before 10/1/87 receive a 3% non-compounded annual increase, \$300 maximum, and also may receive a payment based on investment earnings

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State Employees Retirement Plans

- Retirees and their eligible dependents may choose to have:
 - Medical and Prescription Drug Coverage
 - Dental/Vision Insurance
 - Life Insurance (if they have it as an active employee at the time of retirement)
 - Long-Term Care Insurance
- Health care is self-funded on a “pay-as-you-go” basis

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Judges Retirement Plans

DEFINED BENEFIT

- Any position, appointed or elected, before March 31, 1997
- Members contribute 3.5% to 7% of participating salary depending on position
- Takes 8 years to be vested in the system
- Must be age 55 with 18 years of service to retire, age 60 with 8 years of service, or 25 years of service with no age minimum

DEFINED CONTRIBUTION

- Any position, appointed or elected, on or after March 31, 1997 or transferred from the Defined Benefit Plan
- State contribution is 4% of the member's annual salary
- State will match up to the first 3% of any employee contributions
- Takes 2 years to be 50% vested in the system, 3 years to be 75% vested, or 4 years to be 100% vested

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Judges Retirement Plans

- Medical, Dental and Vision coverage are available through the State Health Plan
- Only elected officials, Supreme Court Justices and Appellate Judges are eligible for the subsidized premium
 - Defined Benefit plan members receive a fixed health care subsidy
 - Defined Contribution participants receive a 90% subsidized premium (vested at age 60 with 8 years, age 55 with 18 years, any age with 25 years)
- Health care is self-funded on a “pay-as- you-go” basis

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State Police Retirement Plan

- Funded by contributions from the Michigan Department of State Police.
- Employee contributions are not currently required
- Takes 10 years to be vested in the system
- Can retire at any age with 25 years of service

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State Police Retirement Plan

- Post – Retirement Increases
 - Members receive a 2% non-compounded annual increase, \$500 maximum amount

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State Police Retirement Plan

- Retirees and their eligible dependents may choose to have:
 - Medical and Prescription Drug Coverage
 - Dental/Vision Insurance
 - Life Insurance
 - Long-Term Care Insurance
- Health care is self-funded on a “pay-as-you-go” basis

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Contesting Decisions

- An individual who disagrees with a decision made by the retirement system generally may request an administrative hearing
- The hearing process is conducted as required under the Administration Procedures Act
- An Independent Hearing Officer/Administrative Law Judge is designated to preside over the hearing and provides a proposal for decision (PFD) containing proposed findings of fact and conclusions of law
- The Board makes the final administrative decision
- If individual disagrees with the Board's decision, they can appeal to the Circuit Court

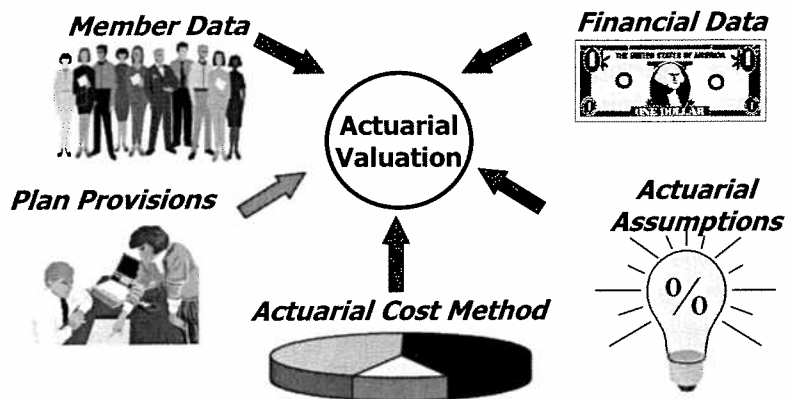
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Reviewing Actuarial Assumptions

- **Actuarial Valuation for Pension Benefits**: prepared annually to determine the actuarial condition of the pension plan and the employer contribution rate required to fund the system on an actuarial reserve basis
- **Actuarial Valuation for Health Benefits**: prepared annually to determine the employer contribution rate that would apply if pre-funding were in effect (uses the same actuarial assumptions as for pension population)
- **Experience Study**: conducted every five years to analyze the actual experience of the retirement system versus the anticipated experience by the actuarial assumptions currently in use

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Actuarial Valuation Process



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Public Schools - Pension Fund

- Assets = \$39.9 Billion
- Liabilities = \$49.1 Billion
- Funded Ratio = 81.2%
- Current Employer Contribution Rate (2006-2007) = 11.19%

* Figures other than employer contribution rate are as of close of fiscal year, September 2006.

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Public Schools - Health

- Annual Costs = \$694.3 million
- Potential Unfunded Liability = \$13.5 billion
- Current Employer Contribution Rate (2006-2007) = 6.55%

* Figures other than the contribution rate are as of September 2005 valuation.

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State Employees – Pension Fund

- Assets = \$10.1 Billion
- Liabilities = \$12.9 Billion
- Funded Ratio = 78.8%
- Current Employer Contribution Rate (2006-2007) = 18.10%

* Figures other than the contribution rate are as of close of fiscal year, September 2006.

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State Employees – Health Fund

- Annual Costs = \$323 Million
- Potential Unfunded Liability = \$6.9 billion
- Current Employer Contribution Rate (2006-2007) = 12.20%

* Figures other than the contribution rate are as of September 2005 valuation.

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Judges – Pension Fund

- Assets = \$283 Million
- Liabilities = \$244 Million
- Funded Ratio = 116%
- Current Employer Contribution (2006-2007) = \$191,105

• Figures other than the contribution amount are as of close of fiscal year, September 2006.

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Judges – Health

- Annual Costs = \$597,000
- Potential Unfunded Liability = \$4.0 million
- Current Employer Contribution Rate (2006-2007) = 2%

* Figures other than the contribution rate are as of September 2005 valuation.

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State Police – Pension Fund

- Assets = \$1.1 Billion
- Liabilities = \$1.4 Billion
- Funded Ratio = 80.3%
- Current Employer Contribution Rate (2006-2007) = 28.34%

* Figures other than the contribution rate are as of close of fiscal year, September 2006.

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State Police – Health

- Annual Costs = \$29.5 Million
- Potential Unfunded Liability = \$464.1 million
- Current Employer Contribution Rate (2006-2007) = 23.0%

* Figures other than the contribution rate are as of September 2005 valuation.

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Economic Impact

- The System also serves as a source of economic stimulus to the State of Michigan
- Michigan's existing pension systems are valuable assets and provide a strong foundation for Michigan's economy

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Economic Impact

- The Retirement System annually provides over \$4.6 billion in pension and health care benefits.
 - \$3.6 billion in pension benefits
 - \$1 billion in health care benefits

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Economic Impact

- The benefits to Michigan's economy come at a reasonable cost:
 - In 2006, \$2.98 billion in contributions resulted in \$4.6 billion in pension and health benefit payments. Investment earnings covered the difference.
 - Using a conservative multiplier of 2.5, it can be projected that the pension and health benefits pumped \$11.5 billion into Michigan's economy in 2006

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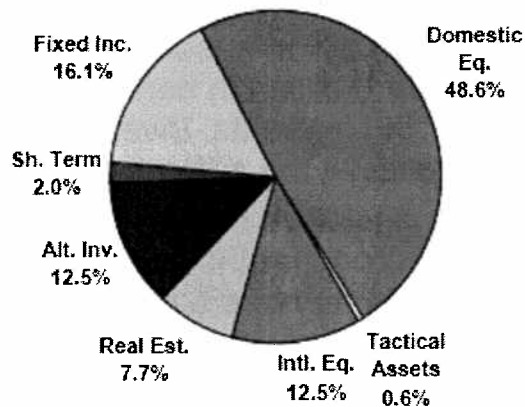
Governance

- Each retirement system has its own retirement board, funding mechanism and governing statute
- Board provides stakeholders insight on issues impacting the retirement system
- Board and DMB jointly approve actuarial assumptions
- The retirement system is responsible for oversight of the system including administrative, financial, etc
- Investment portfolios managed by Bureau of Investments in Department of Treasury
- Attorney General provides legal counsel

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Investments

Asset Allocation
11/30/06

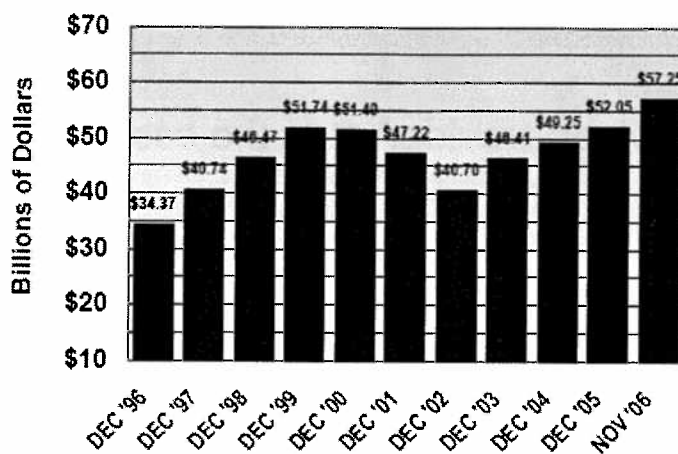


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Retirement Fund Value

Market Value

12/96 - 11/06



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MI-Retirement

- HB 4135 and SB 24
- Designed to help small businesses offer a retirement plan to their employees
- Benefits small businesses, employees, and the economy

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Increased Work/Better Services

- 100% increase in workload with 25% reduction in staff since 1998
- Services provided at ½ the cost of peers

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Questions

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